



BENEFITS FROM RAISING NORTH CAROLINA'S TAX RATE ON TOBACCO PRODUCTS OTHER THAN CIGARETTES

Current North Carolina Tax Rate on Other Tobacco Products: 10.0% of Wholesale Price

Current Annual Revenues from North Carolina's OTP Tax: Approximately \$6.4 million per year

It is well established by scientific research and the experiences of numerous states that increasing state tax rates on non-cigarette tobacco products not only raises new state revenues but also helps to reduce tobacco use levels, especially among youth, thereby reducing related harms and costs, as well. Put simply, the increased revenues per package of each tobacco product sold bring in far more new revenue than are lost by the reductions in tobacco product consumption and sales prompted by the tax increase.

To avoid making less-expensive other tobacco products a gateway to cigarette addiction or an alternative to quitting or cutting back for smokers, it is important that state tax rates on other tobacco products parallel the state's tax rate on cigarettes. For the state's current cigarette tax rate of \$0.35 per pack, the comparable tax rate for other tobacco products would be approximately 15% of wholesale price. For a cigarette tax rate of \$1.11 per pack (a \$0.76 per pack increase), the comparable tax rate for other tobacco products would be 49% of wholesale price (a 39% percentage point increase). The following shows the likely results from different rate increase options in North Carolina.

	<u>Increase</u>	<u>New OTP Tax Rate</u>	<u>Additional New Revenue In Next Year</u>	<u>Consumption Decline</u>	<u>Fewer Youth Users</u>
Matching the National Average OTP Rate	22%	32%	\$12.0 million	-7.7%	-14.3%
Parallel to 76-Cent Cigarette Tax Increase	39%	49%	\$19.7 million	-13.7%	-25.4%

Revenue projections are conservative, assuming both consumption declines and new tax evasion after the rate increases. Projected new revenues are net new revenues above the prior year's revenue total.

An increased percentage-of-price tax will keep up with inflation and product price increases, producing stable or modestly increasing state revenue levels over time. In addition, establishing a new minimum tax for the very lowest-priced tobacco products would combat predatory pricing, ensure that cut-rate tobacco products do not largely evade taxation, and bring in even more net new state revenue. One good option for a minimum tax on other tobacco products would be an amount equal to the state's per-pack cigarette tax rate per OTP consumer unit or package.

But taxing tobacco products other than cigarettes, or any category of tobacco products (e.g., smokeless or moist snuff), on a per-weight basis would be a long-term loser for the state in terms of both revenue and public health benefits unless the new tax is indexed for inflation and supplemented with a minimum tax to reach the new generation of very-low-weight smokeless tobacco products. See the Campaign factsheet, *Spit Tobacco and Other Tobacco Products Besides Cigarettes Should Be Taxed at a Percentage of Wholesale Price*, <http://tobaccofreekids.org/research/factsheets/pdf/0282.pdf>.

For more information, see the Campaign factsheet, *Benefits From Increasing Smokeless Tobacco Tax Rates*, <http://tobaccofreekids.org/research/factsheets/pdf/0180.pdf>.

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Additional Sources: Chaloupka, F, et al., "Public Policy and Youth Smokeless tobacco use," *Southern Economic Journal*, 64(2):503-516, 1997, <http://tiger.uic.edu/~fjc/Presentations/Scans/Final PDFs/sej1997.pdf>. See, also, Chaloupka, F, "Macro-Social Influences: The Effects of Prices and Tobacco Control Policies on the Demand for Tobacco Products," *Nicotine & Tobacco Research* (2000), and other price studies at <http://tiger.uic.edu/~fjc>. Chaloupka, F & Warner, K, "The Economics of Smoking," in Newhouse, J & Cuyler, AJ (eds.), *The Handbook of Health Economics*, 2000, at 1539-627, <http://tiger.uic.edu/~fjc/Presentations/Papers/handfinal.pdf>; also available as NBER Working Paper, <http://papers.nber.org/papers/w7047>. U.S. Department of Health & Human Services, *Preventing Tobacco Use Among Young People: A Report to the Surgeon General*, 1994, <http://www.cdc.gov/tobacco/sgr2.htm>. Economic Research

Service, USDA, *Tobacco Briefing Room*, <http://www.ers.usda.gov/Briefing/tobacco>. Projections subject to change as updated data and research becomes available. For questions, contact Eric Lindblom, elindblom@tobaccofreekids.org.